

Message Text

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16

ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 EB-11 AID-20 CIAE-00 COME-00

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TO SECSTATE WASHDC 3732

INFO AMCONSUL BRISBANE

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USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EIND, EGEN, PINT, AS

SUBJ: GOA ECONOMIC POLICY DEVELOPMENTS

REF: CANBERRA 4740 (NOTAL)

1. TREASURER CREAN ANNOUNCED IN PARLIAMENT JULY 23 NEW PACKAGE OF ANTI-INFLATION POLICY MEASURES. THIS PACKAGE, REFERRED TO AS "MINI-BUDGET" CONSISTS ESSENTIALLY OF EXCISE POSTAL AND TELEPHONE RATE INCREASES PLUS DEFERRAL OR STRETCH-OUT OF PREVIOUSLY ANNOUNCED ALP SPENDING PROGRAMS. TOTAL ANTICIPATED SPENDING REDUCTIONS AND NEW REVENUES IN BALANCE FISCAL 75 \$A270 MILLION. PACKAGE ALSO INCLUDED DECISIONS TO INCREASE PENSIONS FOR TOTAL OF \$A340 MILLION AND ADVANCE ANNOUNCEMENT THAT BUDGET EXPECTED IN SEPTEMBER WILL CALL FOR INAUGURATION OF CAPITAL GAINS TAX.

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2. THIS PACKAGE, THE ONLY IMMEDIATE RESULT OF WIDELY-PUBLICIZED JULY 22 CABINET SESSION IN "ECONOMIC CRISIS" ATMOSPHERE, HAS BEEN WIDELY CRITICIZED AS BOTH MISDIRECTED AND INADEQUATE. THERE IS WIDENING EVIDENCE THAT DEMAND PRESSURES IN AUSTRALIAN ECONOMY ARE BEGINNING TO EASE IN RESPONSE TO PAST MEASURES BUT THAT STILL-WORSENING INFLATIONARY PROBLEM IS INCREASINGLY ONE OF COST-PUSH RESULTING FROM RAPIDLY INCREASING WAGE COSTS. PROPOSED PACKAGE, WHICH ON BALANCE INVOLVES NO NET REDUCTION IN GOVERNMENT EXPENDITURES, APPEARS LIKELY TO HAVE LITTLE EFFECT UPON INCOME POLICY PROBLEM.

3. THE ECONOMIC INADEQUACY OF THE PACKAGE ASIDE, ITS PRINCIPAL SIGNIFICANCE MAY BE IN WHAT IT IMPLIES OF THE CURRENT POLITICAL SITUATION. WE UNDERSTAND THIS PACKAGE, DESPITE ITS MODESTY, WAS ACCEPTED BY ALP CAUCUS DURING THE HOUR PREVIOUS TO ITS PARLIAMENTARY PRESENTATION ONLY UNDER GREAT PRESSURE BY LEADERSHIP AND OVER STRONG PROTEST. MEMBERS OF THE LABOR CAUCUS WERE NOT INFORMED UNTIL 5:00 PM JULY 23 THAT THE ISSUE WOULD BE DISCUSSED BY CAUCUS AT 7:30 PM THAT SAME NIGHT -- BARELY HALF AN HOUR BEFORE THE TREASURER WAS SCHEDULED TO SPEAK. MEMBER OF LABOR CAUCUS TELLS US THAT EFFORTS WERE MADE TO POSTPONE PRESENTATION BY TREASURER UNTIL AFTER CAUCUS MEETING MORNING OF JULY 24, BUT LEAKS TO PRESS THAT MINI-BUDGET WAS ABOUT TO COME OUT HAD BEEN SO EXTENSIVE THAT POSTPONEMENT WOULD HAVE DONE GOVERNMENT CONSIDERABLE DAMAGE. VOTE ON MOTION TO POSTPONE PRESENTATION OF MINI-BUDGET WAS DEFEATED BY MARGIN OF 40 TO 35, INDICATING HOW DEEPLY DIVIDED CAUCUS WAS.

4. MOREOVER, THE FACT THAT THIS PACKAGE WAS THE TOTAL THAT THE CABINET PROPOSED TO CAUCUS FOLLOWING INTENSIVE FULL-CABINET REVIEW OF THE ECONOMIC SITUATION SUGGESTS THAT PRIME MINISTER AND CREAN PROBABLY FACED WIDE CABINET DIVERGENCE OF VIEW AND MAY HAVE UNSUCCESSFULLY SOUGHT MORE AMBITIOUS PROGRAM CONCEIVABLY INCLUDING SOME TYPE OF INCOME MEASURE. IF THIS SURMISE CORRECT, IT SUGGESTS THAT ALP ECONOMIC POLICY DIVISIONS WILL POSE GREAT OBSTACLE TO DEVELOPMENT OF EFFECTIVE NEW ANTI-INFLATION PROGRAM DESPITE URGENCY PRIME MINISTER ATTACHES THIS POINT. WE EMPHASIZE THIS IS SURMISE AND BETTER JUDGMENT WILL BE POSSIBLE WHEN BUDGET IS PRESENTED IN SEPTEMBER, IF NOT SOONER.

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5. IN AN EVEN BROADER SENSE, WHILE PRIME MINISTER HAS BULLED THIS PROPOSAL THROUGH CAUCUS AND MAY WELL GET IT THROUGH PARLIAMENT, HE IS SIMPLY NOT HANDLING HIS RELATIONS WITH HIS LABOR COLLEAGUES IN ADEQUATE FASHION. IF THIS PROCESS IS REPEATED IN MONTHS AHEAD, WHITLAM WILL ENCOUNTER STEADY GROWTH OF OPPOSITION TO HIS LEADERSHIP AMONG LABOR MEMBERS OF PARLIAMENT.
HARROP

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